

Cellular South Licenses, Inc. Alliance of Rural CMRS Carriers Ex Parte Presentation

September 15, 2008

Universal Service Reform
WC Docket No. 05-337
Intercarrier Compensation Reform
CC Docket No. 01-92

The Proposal to Cut IAS and ICLS Support Will Significantly Reduce Investment in Rural Areas

- Combined, IAS and ICLS total approximately \$740 million of annual support to CETCs nationally, over half of the total available.
- The FCC's proposal to cut IAS/ICLS support to CETCs will reduce support to individual states by up to 100%.
- CETCs, which are required to invest these funds into their networks, will cut investments in those states by a corresponding amount.
- The cost savings to consumers of these cuts is less than 17 cents per month, or \$2 a year.
- Some proposals would simply reserve these funds for wireline carriers.

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(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- California: 100% - \$1.5 M
- Virginia: 98% - \$14 M
- Florida: 97% - \$15 M
- Georgia: 92% - \$7 M
- Pennsylvania: 90% - \$1.2 M
- New Hampshire: 88% - \$1 M
- New York: 87% - \$2.5 M*
- North Carolina: 86% - \$8 M*
- Illinois: 75% - \$23 M
- Tennessee: 73% - 3.3 M
- Nevada: 69% - \$4.7 M
- Washington: 68% - \$31 M
- Texas: 62% - \$22 M
- Indiana: 62% - \$4.7 M
- Oregon: 58% - \$13 M

* Does not include recent ETC designations.

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(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- Utah: 58% - \$0.6 M
- Wisconsin: 56% - \$33 M
- Alaska: 55% - \$43 M
- South Carolina: 55% - \$3.8 M
- Iowa: 54% - \$34 M
- Minnesota: 48% - \$23 M
- New Mexico: 48% - \$9.1 M
- Oklahoma: 46% - \$14 M
- North Dakota: 45% - \$20 M
- Maine: 44% - \$5 M
- Arizona: 43% - \$6 M
- Kentucky: 43% - \$12 M
- Arkansas: 42% - \$11 M
- Michigan: 41% - \$9 M

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(cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

- Alabama: 39% - \$7 M
- Nebraska: 39% - \$22 M
- West Virginia: 38% - \$22 M
- Missouri: 38% - \$13 M
- Colorado: 38% - \$4 M
- South Dakota: 37% - \$13 M
- Hawaii: 35% - \$12 M
- Idaho: 35% - \$3.4 M
- Louisiana: 35% - \$23 M
- Montana: 35% - \$5.8M
- Vermont: 34% - \$2.1 M
- Kansas: 30% - \$25 M
- Wyoming: 29% - \$6.1 M
- Mississippi: 12% - \$20 M

Three Critical Reforms to Control Fund Growth and Make Room for Broadband and Mobility:

- Support Must Be Made “Fully Portable” -- The Carrier That Gets the Customer Gets the Support.
- Support Must be Accurately Targeted to Areas that Are “High-Cost”.
- The “cost-plus” mechanism must be replaced with an efficient mechanism that works in increasingly competitive markets.

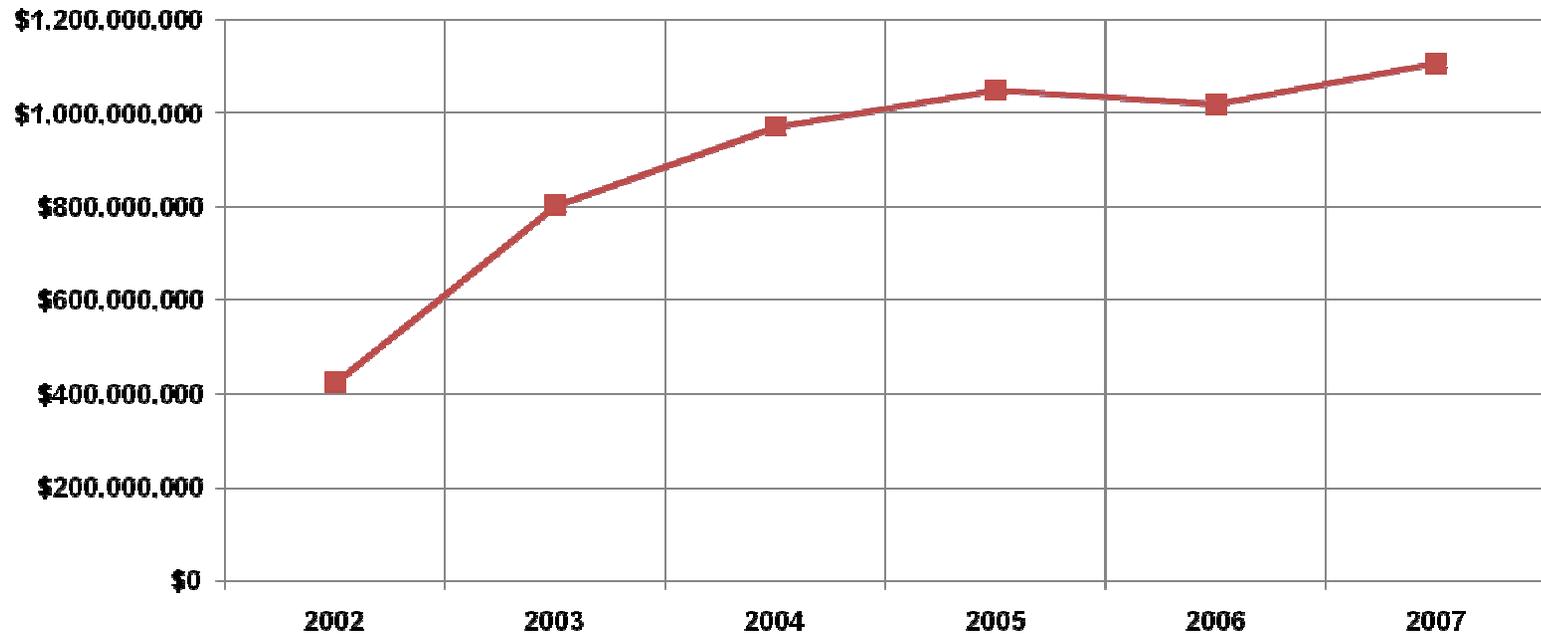
Portability:

Support is provided to the carrier that wins the customer and is removed from the carrier that loses the customer

To ensure competitive neutrality, we believe that a competitor that wins a high-cost customer from an incumbent LEC should be entitled to the same amount of support that the incumbent would have received for the line, including any interim hold-harmless amount. While hold-harmless amounts do not necessarily reflect the forward-looking cost of serving customers in a particular area, we believe this concern is outweighed by the competitive harm that could be caused by providing unequal support amounts to incumbents and competitors. **Unequal federal funding could discourage competitive entry in high-cost areas and stifle a competitor's ability to provide service at rates competitive to those of the incumbent.**

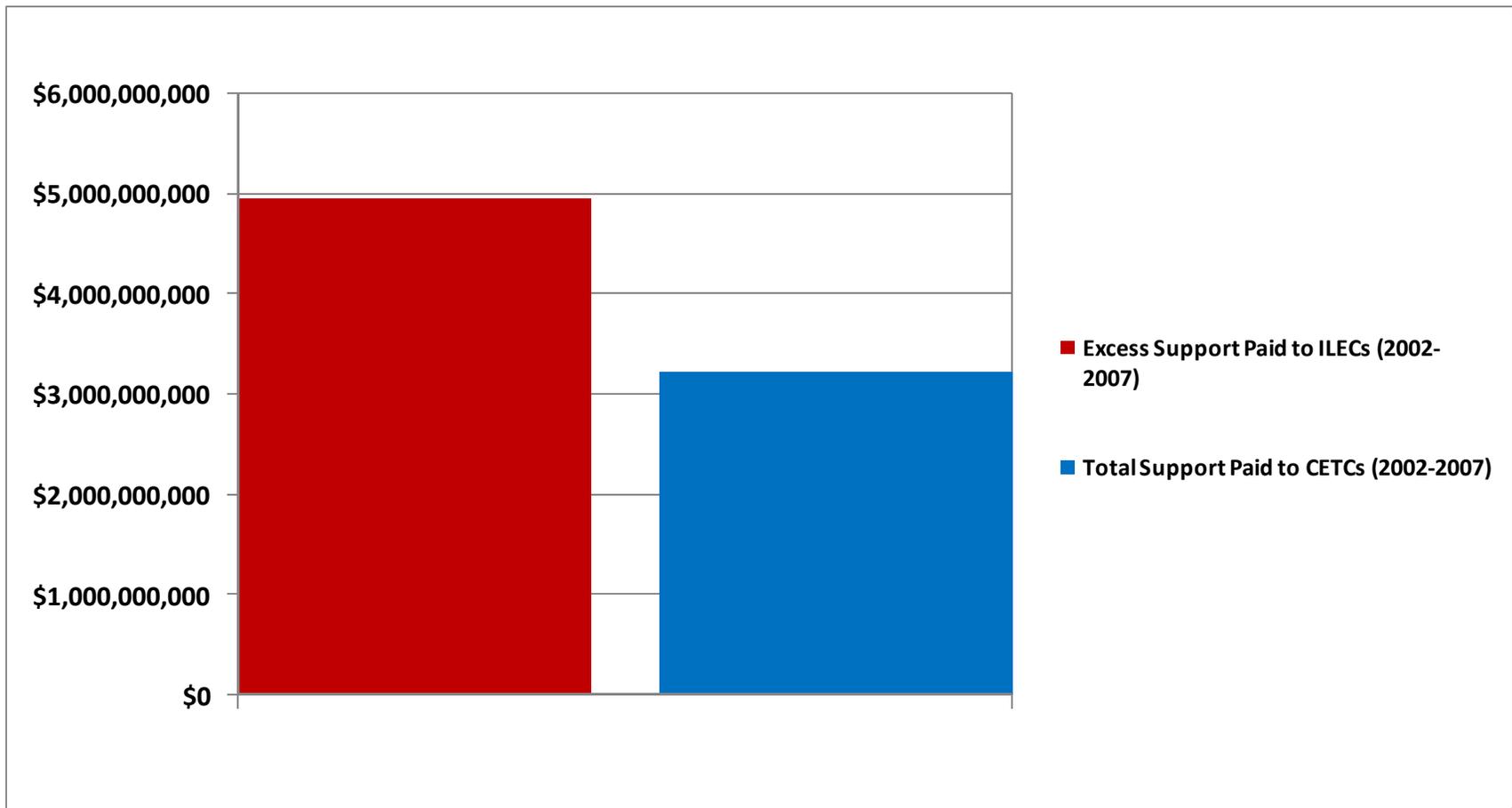
Federal-State Joint Board on Universal Service, Ninth Report & Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20,432, 20,480 (1999).

Potential Annual Savings if ILEC Support Declined at Same Rate as Loop Counts



NOTE: Loop counts are as of June of each year, except for 2007 (December 2006 figures used)

Savings from Reduction of ILEC Support as Loop Counts Declined Would Have More Than Offset ALL Support to CETCs from 2002 to 2007



Summary of Portability

- Portability is required by law.
- Portability *is* competitively neutral.
- Portable support allows the FCC to control fund growth.
- Portability allows newcomers to enter and compete in rural areas on a level playing field.
- Portability allows *consumers* to choose – not government.
- Today, only CETCs are subject to full portability.

Proposed Hold Harmless Provision

- A hold harmless provision can assist small carriers through a transition period to full portability. Here are two examples:
- Scenario 1: ILECs up to 5,000 access lines can be held harmless for up to 20% of access line loss for \$165 million (3 cents/mo.)
- Scenario 2: ILECs up to 10,000 access lines can be held harmless for up to 20% of access line loss for \$266 million (5 cents/mo).
- The amount of hold harmless can be easily implemented and adjusted.

Targeting of Support

- In many areas, support continues to be provided throughout a rural ILEC study area rather than targeted only to the highest-cost areas that need investment the most.
- Failure to target support reduces incentives to build out into rural areas.
- Support must be targeted more accurately.

Targeting of Support

Solution:

Amend 47 C.F.R. Section 315 to require ILECs to disaggregate support at the wire center level.

Disaggregation Explained

Highland Cellular
example:

Table 1

Wire Center Name	Number of Customers	Support Available	Total
Athens	686	\$11.92	\$8,177.12
Bluefield	3,470	\$11.92	\$41,362.40
Bluewell	640	\$11.92	\$7,628.80
Bramwell	113	\$11.92	\$1,346.96
Matoaka	239	\$11.92	\$2,848.88
Oakvale	198	\$11.92	\$2,360.16
Princeton	4,521	\$11.92	\$53,890.32
Frankford	282	\$37.72	\$10,637.04
Rupert	27	\$16.80	\$453.60

Total Without Disaggregation: \$128,705.28

Disaggregation Explained (cont'd)

Highland Cellular example:

Table 2

Wire Center Name	Number of Customers	Support Available	Total
Athens	686	\$38.24	\$26,232.64
Bluefield	3,470	\$0.00	\$0.00
Bluewell	640	\$20.44	\$13,081.60
Bramwell	113	\$20.44	\$2,309.72
Matoaka	239	\$38.24	\$9,139.36
Oakvale	198	\$38.24	\$7,571.52
Princeton	4,521	\$0.00	\$0.00
Frankford	282	\$34.04	\$9,599.28
Rupert	27	\$23.80	\$642.60

Total With Disaggregation: \$68,576.72

Summary of ICC/USF Reform

- ICC – Short-term, termination rate harmonized at \$0.0007 and transport rates reduced to cost-based rate. Long-term, bill and keep for all traffic.
- Any additional support must be made fully portable among all carriers.
- Target support to highest-cost areas.
- Define COLR and require all ETCs to accept COLR obligations.
- CETCs are permitted to use support to provide broadband service.
- Hold harmless provision put in place for small carriers through transition period – begin proceeding to reform ILEC support.